## **Rent Control Ordinances -- Unintended Consequences**

- Rent control ordinances always reduce the number and quality of rental housing units available. The concept of supply and demand tells us that whenever a price control is put into effect, including rent control, an excess of supply over demand will be created. The Journal of Urban Economics talks about a survey of 75 of the world's outstanding economists that found nearly unanimous agreement on the proposition: "A ceiling on rents will reduce the quality and quantity of housing." A poll of the members of the American Economic Association showed the same result.
- Rent control ordinances lead to higher rents. Although people think "rent control" will lead to lower rents, the exact opposite is true. The rents of available apartments in rent controlled cities are dramatically higher than rents in cities without rent control. In cities without rent control, available units are all along the spectrum from low-priced to high-priced. In rent controlled cities, the only units available are the highest priced, far above the median rent.
- Rent control leads to divestment in a community. When a city
  artificially restrains rents by adopting rent control, it sends the
  market what may be a false message. It tells builders not to make
  new investments and it tells current providers to reduce their
  investments in existing housing. Under these circumstances, rent
  control ordinances have the unintended consequence of reducing,

rather than expanding, the supply of housing in times of housing shortage.

- Rent control causes the deterioration of existing housing. By reducing the return on investments in rental housing, rent control leads to a drop in the quality and quantity of existing rental units. In cities that pass rent control ordinances, apartments are sometimes converted into condominiums. Property owners who are faced with declining revenues may be forced to substantially reduce the maintenance and repair of existing housing.
- Rent control causes reduced property value and reduced property tax revenue. In New York, a rent-controlled city, a study in the late 1980s found that the loss in taxable assessed property values due to rent control was approximately \$4 billion. This loss in value cost the City an estimated \$370 million annually in property tax revenue. Similarly, the City of Berkeley also estimates a significant loss in tax revenue due to rent control.
- Rent control creates substantial administrative costs. The
   administrative costs of rent control can be substantial. Rent controls
   require the creation of convoluted bureaucratic systems. Rental
   property must be registered, detailed information on the rental
   property must be collected, and complex systems for determining
   rents must be created, and processes for hearing complaints and
   appeals must be established. In Santa Monica in 1996, the Rent

Control Board had a budget of more than \$4 million a year to control rents for only 28,000 units.

- Rent control leads to reduced consumer mobility. Consumer "mobility" is substantially reduced by the reluctance of many consumers to part with the rent control subsidy, whether or not their income indicates they need it. A recent study in New York City found that rent control tripled the expected duration of residence. Consumers who would otherwise move to larger homes or closer to their jobs don't move because they do not want to lose the subsidy. This loss of mobility can be particularly costly to families whose job opportunities are geographically limited and may have to travel long distances to reach those jobs. And, for the community itself and nearby communities, reduced consumer mobility can mean increased traffic congestion.
- Rent control means expensive consumer entry costs. In many rentcontrolled communities, prospective consumers must pay
  substantial finder's fees to obtain a rental unit, due to the scarcity of
  available housing. And, in some rent-controlled areas, a "graymarket" in rental housing has developed in which units are passed
  among friends or family members, or new consumers may be
  required to pay "key money" or to make other payments to current
  consumers to obtain housing. Sub-leasing is common in rentcontrolled cities.

- Rent control disproportionately harms the poor. Poor families suffer a marked decline in existing housing as the quality of existing housing falls in response to reduced maintenance expenditures. The middle class can move out, poorer families lack this option. In addition, poor families are at a substantial disadvantage when it comes to finding new housing. In a tight market, there are more people looking for housing than available rental units, giving housing providers substantial discretion in choosing among competing potential customers. In rent-controlled markets, housing providers turn to factors such as income and credit history to choose among competing consumers.
- Rent control benefits high income households the most. Higher income households not the poor are the principal beneficiaries of rent control. A study of rent control in New York City found that rent-controlled households with incomes greater than \$75,000 received nearly twice the average subsidy of rent-controlled households with low income. Similarly, a study of rent control in Berkeley and Santa Monica found that the beneficiaries of rent control in those communities are "predominately white, well-educated, young professionally employed and affluent," and that rent control had substantially increased the disposable income of these tenants while exacerbating the problems of low-income families. In Cambridge, Massachusetts, residents of rent controlled housing had higher incomes and higher status occupations on average than other residents of the City, including homeowners.